

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Fraser, Michigan</u>	County Macomb
Audit Date June 30, 2005	Opinion Date September 9, 2005	Date Accountant Report Submitted To State: October 31, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 10 South Main Street, Suite 200	City Mt. Clemens	State MI	ZIP 48043
Accountant Signature <i>Plante & Moran, PLLC</i>			

City of Fraser, Michigan

**Financial Report
with Supplemental Information
June 30, 2005**

City of Fraser, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Fraser, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fraser, Michigan (the "City") as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fraser's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fraser, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules of the General Fund and the Drug Forfeiture Fund, the pension system schedule of funding progress, and the pension system schedule of employer contributions identified in the table of contents are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and
Members of City Council
City of Fraser, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fraser's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 9, 2005

City of Fraser, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Fraser, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City on a government-wide basis. They are presented on a full-accrual basis and designed to present a long-term view of the City's finances.

Fund financial statements follow the above-mentioned statements. They are presented on a modified accrual basis and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Fund financial statements report the City's operation in more detail than the government-wide financial statements.

The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for benefit of those outside of government.

The City of Fraser as a Whole

The City's combined net assets decreased by \$1 million, from \$22 million at June 30, 2004 to \$21 million at June 30, 2005. A review of the governmental activities, separate from the business-type activities, shows a decrease of approximately \$1.5 million in net assets, or 9.9 percent, during fiscal year 2005. This decrease was primarily the result of depreciation, a noncash expense, totaling \$2.9 million. Due to the diligence in the area of expenditure control, disciplined budgeting practices, and continued growth in property values, revenues within the City exceeded cash expenditures recorded in 2005 by \$1.4 million. The business-type activities experienced a \$373,000 increase in net assets. This was primarily due to capitalizing \$226,000 of water and sewer lines contributed by developers and increased operating revenue. In a condensed format, the table below shows the comparison of assets (in thousands of dollars) as of June 30, 2005 to the prior year:

City of Fraser, Michigan

Management's Discussion and Analysis (Continued)

TABLE I (in thousands)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 5,756	\$ 6,225	\$ 1,541	\$ 1,122	\$ 7,297	\$ 7,347
Noncurrent assets	<u>19,599</u>	<u>21,468</u>	<u>9,486</u>	<u>9,556</u>	<u>29,085</u>	<u>31,024</u>
Total assets	25,355	27,693	11,027	10,678	36,382	38,371
Liabilities						
Current liabilities	2,186	2,265	812	682	2,998	2,947
Long-term liabilities	<u>9,875</u>	<u>10,704</u>	<u>2,553</u>	<u>2,707</u>	<u>12,428</u>	<u>13,411</u>
Total liabilities	<u>12,061</u>	<u>12,969</u>	<u>3,365</u>	<u>3,389</u>	<u>15,426</u>	<u>16,358</u>
Net Assets						
Invested in capital assets -						
Net of related debt	10,843	12,495	6,777	6,697	17,620	19,192
Restricted	2,004	2,027	-	-	2,004	2,027
Unrestricted (deficit)	<u>447</u>	<u>202</u>	<u>885</u>	<u>592</u>	<u>1,332</u>	<u>794</u>
Total net assets	<u>\$ 13,294</u>	<u>\$ 14,724</u>	<u>\$ 7,662</u>	<u>\$ 7,289</u>	<u>\$ 20,956</u>	<u>\$ 22,013</u>

Unrestricted net assets of the governmental activities, which is the part of net assets that is available to finance day-to-day operations and future growth, was \$447,000 at June 30, 2005. This represents an increase of \$245,000.

City of Fraser, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets (in thousands of dollars) as of June 30, 2005 and 2004:

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 2,959	\$ 3,064	\$ 4,594	\$ 4,487	\$ 7,553	\$ 7,551
Operating grants and contributions	955	1,014	-	-	955	1,014
Capital grants and contributions	-	-	226	170	226	170
General revenue:						
Property taxes	9,944	9,679	-	-	9,944	9,679
State-shared revenue	1,485	1,524	-	-	1,485	1,524
Unrestricted investment earnings	169	240	12	6	181	246
Transfers and other revenue	243	(744)	(120)	889	123	145
Total revenue	15,755	14,777	4,712	5,552	20,467	20,329
Program Expenses						
General government	3,213	1,922	-	-	3,213	1,922
Public safety	7,309	7,475	-	-	7,309	7,475
Public works	4,719	5,944	-	-	4,719	5,944
Recreation	1,079	1,305	-	-	1,079	1,305
Community and economic development	458	385	-	-	458	385
Interest on long-term debt	406	419	-	-	406	419
Water and sewer	-	-	3,951	4,169	3,951	4,169
Senior housing	-	-	387	384	387	384
Total program expenses	17,184	17,450	4,338	4,553	21,522	22,003
Change in Net Assets	\$ (1,429)	\$ (2,673)	\$ 374	\$ 999	\$ (1,055)	\$ (1,674)

Governmental Activities

The City's total governmental revenues increased by approximately \$978,000 over 2004. This is primarily attributed to property tax revenues generated from community growth and a large change in transfers and other revenues. The increases were offset somewhat by decreases in charges for services, operating grants, and contributions. State-shared revenues continued to decrease because of the stubborn economic conditions that persist in the State economy.

City of Fraser, Michigan

Management's Discussion and Analysis (Continued)

Cash-related expenses decreased by approximately \$154,000 from the last fiscal year. The City was able to reduce the level of expenditures by continually monitoring the budget very closely, not filling vacancies, previous modifications in health insurance, a refuse hauling contract, and other cost-reduction programs. These cost-cutting measures helped offset general inflationary increases such as wage increases and general incidental costs.

During the year, the City continued to meet the actuarial contribution to the defined benefit pension system and set aside an additional \$58,000 to fund retiree health care benefits.

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund and Senior Citizen's Housing Complex Fund. The City provides its residents water, which is purchased from the City of Detroit Water System, and sewage treatment through a contract with the Macomb County Public Works offices that contract with the City of Detroit Water and Sewage System. The rates for both water and sewer billed to residents remained unchanged for the fiscal year. The Water and Sewer Fund generated operating income of approximately \$141,000 during 2005, which is an increase of approximately \$384,000 from 2004. The improved operating results of the Water and Sewer Fund primarily resulted from an increase in units billed to customers and a reduction to system repairs and maintenance expenditures of approximately \$363,000 from 2005. General operating costs other than repairs and maintenance, such as the labor costs and water and sewer purchases, increased by approximately \$144,000 from 2004. The Administrative Consent Order (ACO) issued by the Michigan Department of Environmental Quality (MDEQ) requiring the City to establish a program to correct sanitary sewer overflow progressed. The water and sewer department is now on track to solving the sewage overflow problems and meeting the requirements of the ACO. Macomb County and the Detroit water and sewage department remain in discussion on the issue of the output capacity. This has stalled any further decisions relative to additional projects. The City continues to work with the County to resolve this issue. In the meantime we will continue to invest in system maintenance projects that will further reduce inflow and infiltration.

The City's Funds

The analysis of the City's major funds begins on page 13. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as State of Michigan Act 51 major and local street revenue sharing, accounting for drug forfeiture revenue and expenditures, capital projects, and voted debt retirement funds.

City of Fraser, Michigan

Management's Discussion and Analysis (Continued)

The General Fund pays for most of the City's governmental services, the most significant being the public safety department, which incurred expenditures of approximately \$7 million. The general operating millage levied by the City supports not only public safety but other major operating costs such as funding general government administration, recreation and community development, and others. The general operating millage does not support other costs such as water and sewer, Special Assessment Debt retirement, or General Obligation Bond issues supported by millage or fees. It should be noted that retiree health care is becoming an increasingly larger appropriation of the general operating budget since it was not pre-funded in past years. Retiree health care costs will continue to become an increased burden to the General Fund in future years as costs continue to increase and the City is required to comply with new accounting standards that require the City to record a liability for future retiree health care, similar to the liabilities recorded by for-profit corporations. Current year expenditures for retiree health care approximated \$946,000.

General Fund Budgetary Highlights

Over the course of the year, the City administration and City Council monitor and amend the budget to take into account unanticipated events that occur during the year. The most significant of these events during the fiscal year was the continuing decline in state-shared revenues.

Capital Assets and Debt Administration

At the end of fiscal year 2005, the City has \$33.8 million invested, before depreciation, in a wide range of capital assets, including land, building, public safety equipment, computer equipment, and water and sewer lines. The City is reporting infrastructure assets, which include roads, bridges, sidewalks, storm drains, and other assets in which the City has invested since its inception. The value of the infrastructure assets, net of depreciation, contained in this report is \$6.3 million at June 30, 2005.

Debt of \$10.1 million related to the construction of the above-mentioned capital assets is reported as a liability in the governmental activities in the statement of net assets. Debt related to the acquisition and construction of the senior citizen housing complex totaling \$2.9 million is recorded as a liability in the business-type activities in the statement of net assets.

Economic Factors and Next Year's Budgets

The City maintained its property tax millage rate for the 2004-2005 fiscal year to meet necessary expenditures. For the 2005-2006 fiscal year, the millage rate was slightly increased to restore some level of ongoing maintenance. During the 2005-2006 fiscal year, the administration will continue to monitor revenues and expenditures and attempt to expend less than authorized by the budget. It is unlikely that state-shared revenues will increase and it is likely that it will be further reduced in 2005-2006. The City is experiencing additional residential, commercial, and industrial development; however, most will not be complete until 2006 to realize additional property taxes and the growth is not expected to be as significant as in previous years.

City of Fraser, Michigan

Management's Discussion and Analysis (Continued)

The City is working hard to implement recommendations from a recent third-party operational review. The administration is focusing on strategic reductions in personnel, if the opportunity presents itself. We have also looked at opportunities in the area of bidding of large scale contracts such as refuse collection. The bidding of this contract has reduced this expenditure and will have a favorable impact on the June 30, 2006 fiscal year. Among the important elements of this plan is the development of strategic planning instruments that will look out over the next five years. A five-year financial model has been developed and is in the process of being refined. This model will be instrumental in addressing potential financial shortfalls in a pro-active fashion.

As previously mentioned, the City must continue to work toward final resolution of the requirements found within the administrative consent order. Should the City be required to build storage or additional system capacity, this will place a great financial burden on City taxpayers. In addition, our aging infrastructure will require at least the same commitment of funding as in the past and, based on a five-year capital improvement program for roads, water, and sewer, we will need to create new sources of funding.

All labor contracts expired on June 30, 2005. Based on the proposals received to date, there are challenges that will need to be addressed during negotiations, particularly since the adopted budget assumed only 2 percent wages factors. Health care costs for both current participants and future retirees will continue to strain resources. The 2005-2006 budget projects health care costs of approximately \$1.3 million for active employees and \$974,000 for current retirees. In 2008, the City must comply with new accounting standards that will require the City to recognize a liability for retiree medical costs. This will affect the City's overall financial position.

The 2005-2006 budget projects expenditures of approximately \$1.5 million for pension obligations. Given the fact that most of our plans are at a funding ratio of about 60 percent and recent trends show funding ratio percentages continue to decline, we are concerned about continued increases to the City's required contributions to the pension plan.

The Water and Sewer Fund will be subject to additional increases in cost for water and sewer treatment as forecasted by the City of Detroit. Currently, approximately 46 percent of water and sewer rates are used to pay for the cost of purchasing water and for the disposal of our sewage. The 15 Mile Road interceptor collapse has been repaired but the payment for the repairs is still an ongoing issue. If Macomb County must bear the burden for the total repair, this will increase the cost of water and sewage treatment to the City. Also, as mentioned above, infrastructure improvements to our water and sewer mains must remain a commitment as we examine future rates. Currently, over 22 percent of water and sewer rates goes toward infrastructure improvements. This level of funding must remain a priority despite continued pressure to hold the line on future rate increases.

City of Fraser, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the administration offices at city hall.

City of Fraser, Michigan

Statement of Net Assets June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 4,764,078	\$ 712,955	\$ 5,477,033	\$ 20,735
Receivables:				
Customers	-	793,767	793,767	-
Special assessments	492,318	-	492,318	-
Due from other governmental units	499,913	-	499,913	-
Prepaid costs and other assets	-	34,298	34,298	-
Restricted assets	19,391	-	19,391	-
Net pension asset (Note 9)	451,278	-	451,278	-
Capital assets - Nondepreciable (Note 4)	4,950,179	837,043	5,787,222	-
Capital assets - Depreciable (Note 4)	14,178,041	8,649,159	22,827,200	-
Total assets	25,355,198	11,027,222	36,382,420	20,735
Liabilities				
Accounts payable	511,165	518,583	1,029,748	-
Accrued and other liabilities	338,863	102,853	441,716	-
Deferred revenue	20,590	-	20,590	-
Noncurrent liabilities (Note 6):				
Due within one year	1,314,883	190,622	1,505,505	-
Due in more than one year	9,875,414	2,552,893	12,428,307	-
Total liabilities	12,060,915	3,364,951	15,425,866	-
Net Assets				
Invested in capital assets - Net of related debt	10,843,220	6,777,244	17,620,464	-
Restricted:				
Retention pond	19,391	-	19,391	-
Local and major streets	814,303	-	814,303	-
Drug forfeiture	654,552	-	654,552	-
Debt service	47,491	-	47,491	-
Capital projects	16,944	-	16,944	-
Net pension asset	451,278	-	451,278	-
Unrestricted	447,104	885,027	1,332,131	20,735
Total net assets	\$ 13,294,283	\$ 7,662,271	\$ 20,956,554	\$ 20,735

City of Fraser, Michigan

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 3,213,040	\$ 1,840,521	\$ 67,948	\$ -
Public safety	7,308,871	593,881	30,953	-
Public works	4,718,500	82,093	782,936	-
Recreation	1,078,641	132,642	73,254	-
Community and economic development	458,451	309,539	-	-
Interest on long-term debt	405,816	-	-	-
Total governmental activities	17,183,319	2,958,676	955,091	
Business-type activities:				
Sewage disposal and water supply	3,950,885	4,150,712	-	225,873
Senior housing	387,468	443,360	-	-
Total business-type activities	4,338,353	4,594,072	-	225,873
Total primary government	<u>\$ 21,521,672</u>	<u>\$ 7,552,748</u>	<u>\$ 955,091</u>	<u>\$ 225,873</u>
Component units:				
Economic Development Corporation	\$ -	\$ -	\$ -	\$ -
Downtown Development Authority	-	-	-	-
Total component units	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Franchise fees				
Loss on sale of capital asset				
Transfers				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (1,304,571)	\$ -	\$ (1,304,571)	\$ -
(6,684,037)	-	(6,684,037)	-
(3,853,471)	-	(3,853,471)	-
(872,745)	-	(872,745)	-
(148,912)	-	(148,912)	-
(405,816)	-	(405,816)	-
(13,269,552)	-	(13,269,552)	-
-	425,700	425,700	-
-	55,892	55,892	-
-	481,592	481,592	-
(13,269,552)	481,592	(12,787,960)	-
-	-	-	-
-	-	-	-
-	-	-	-
9,943,566	-	9,943,566	-
1,484,679	-	1,484,679	-
168,869	11,877	180,746	340
159,549	-	159,549	-
(37,160)	-	(37,160)	-
120,288	(120,288)	-	-
11,839,791	(108,411)	11,731,380	340
(1,429,761)	373,181	(1,056,580)	340
14,724,044	7,289,090	22,013,134	20,395
\$ 13,294,283	\$ 7,662,271	\$ 20,956,554	\$ 20,735

City of Fraser, Michigan

	General	Drug Forfeiture	Special Assessment - Debt Service
Assets			
Cash and investments	2,576,649	\$ 655,373	\$ 136,854
Receivables - Special assessments	33,779	-	458,540
Due from other governmental units	373,273	-	-
Restricted assets	19,391	-	-
Total assets	<u>\$ 3,003,092</u>	<u>\$ 655,373</u>	<u>\$ 595,394</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	294,040	\$ -	\$ -
Accrued and other liabilities	154,489	821	-
Deferred revenue - Net	54,368	-	458,540
Total liabilities	502,897	821	458,540
Fund Balances			
Reserved for retention pond	19,391	-	-
Unreserved:			
Special Revenue Funds	-	654,552	-
Debt Service Funds	-	-	136,854
Capital Projects Funds	-	-	-
General Fund (Note 1)	2,480,804	-	-
Total fund balances	<u>2,500,195</u>	<u>654,552</u>	<u>136,854</u>
Total liabilities and fund balances	<u>\$ 3,003,092</u>	<u>\$ 655,373</u>	<u>\$ 595,394</u>

**Governmental Funds
Balance Sheet
June 30, 2005**

Other Governmental Funds	Total Governmental Funds
\$ 901,097	\$ 4,269,973
-	492,319
126,640	499,913
<u>-</u>	<u>19,391</u>
<u>\$ 1,027,737</u>	<u>\$ 5,281,596</u>

\$ 117,011	\$ 411,051
7,054	162,364
<u>-</u>	<u>512,908</u>
124,065	1,086,323
-	19,391
814,303	1,468,855
72,425	209,279
16,944	16,944
<u>-</u>	<u>2,480,804</u>
<u>903,672</u>	<u>4,195,273</u>
<u>\$ 1,027,737</u>	<u>\$ 5,281,596</u>

City of Fraser, Michigan

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets Year Ended June 30, 2005

Fund Balance - Total Governmental Funds	\$ 4,195,273
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	18,009,521
Net pension assets in governmental activities are not reported in the funds	451,278
Special assessment receivables are expected to pay for current year's expenditures	492,318
Bonds payable are not due and payable in the current period and are not reported in the funds	(10,135,000)
Compensated absences are included as a liability in governmental activities	(1,035,462)
Accrued interest is included as a liability in governmental activities	(173,774)
Internal Service Funds are included as part of governmental activities	<u>1,490,129</u>

Net Assets of Governmental Activities	<u><u>\$ 13,294,283</u></u>
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City of Fraser, Michigan

	General Fund	Drug Forfeiture	Special Assessment - Debt Service
Revenue			
Property taxes	\$ 9,603,948	\$ -	\$ -
Federal sources	126,903	-	-
State sources	1,482,789	-	-
Interest on investments	95,808	12,765	37,391
Special assessments	-	-	87,489
District Court and Violations Bureau	1,074,742	-	-
Licenses, permits, and registrations	207,940	-	-
Other revenue	1,174,021	218,114	-
Total revenue	13,766,151	230,879	124,880
Expenditures			
Current:			
General government	2,369,522	-	-
Public safety	7,024,074	190,904	-
Public works	1,313,465	-	-
City parks and recreation	650,838	-	-
Other functions	1,057,207	-	-
Capital outlay	-	62,214	-
Debt service	-	-	133,540
Total expenditures	12,415,106	253,118	133,540
Excess of Revenue Over (Under) Expenditures	1,351,045	(22,239)	(8,660)
Other Financing Sources (Uses)			
Transfers in	10,000	-	-
Transfers out	(1,008,299)	-	-
Total other financing sources (uses)	(998,299)	-	-
Net Change in Fund Balances	352,746	(22,239)	(8,660)
Fund Balances - Beginning of year	2,147,449	676,791	145,514
Fund Balances - End of year	<u>\$ 2,500,195</u>	<u>\$ 654,552</u>	<u>\$ 136,854</u>

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2005

Other Governmental Funds	Total Governmental Funds
\$ 353,230	\$ 9,957,178
-	126,903
782,936	2,265,725
15,861	161,825
101,199	188,688
-	1,074,742
-	207,940
<u>81,743</u>	<u>1,473,878</u>
1,334,969	15,456,879
-	2,369,522
-	7,214,978
1,131,095	2,444,560
-	650,838
-	1,057,207
713,901	776,115
<u>923,351</u>	<u>1,056,891</u>
<u>2,768,347</u>	<u>15,570,111</u>
(1,433,378)	(113,232)
1,191,542	1,201,542
<u>(72,955)</u>	<u>(1,081,254)</u>
<u>1,118,587</u>	<u>120,288</u>
(314,791)	7,056
<u>1,218,463</u>	<u>4,188,217</u>
<u>\$ 903,672</u>	<u>\$ 4,195,273</u>

City of Fraser, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds	\$	7,056
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation		(1,649,993)
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Governmental funds do not report the loss from disposal of capital assets; in the statement of activities, these are recorded as a net of the proceeds received and carrying value of the disposed assets		(41,409)
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Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end		(94,853)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		600,000
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Accrued interest reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds		(36,316)
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Increase in accumulated employee compensated absences is recorded when earned in the statement of activities		(51,242)
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Internal Service Funds are also included as governmental activities		(163,004)
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Change in Net Assets of Governmental Activities	\$	<u>(1,429,761)</u>
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City of Fraser, Michigan

Proprietary Funds Statement of Net Assets June 30, 2005

	Business-type Activities			Governmental
	Major Funds			Activity
	Water and Sewer	Senior Citizen Housing Complex	Total Enterprise Funds	Internal Service Fund
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 586,050	\$ 126,905	\$ 712,955	\$ 494,104
Receivables - Customers	793,767	-	793,767	-
Total current assets	1,379,817	126,905	1,506,722	494,104
Noncurrent assets:				
Other assets	-	34,299	34,299	-
Capital assets (Note 4)	5,839,589	3,646,613	9,486,202	1,118,699
Total noncurrent assets	5,839,589	3,680,912	9,520,501	1,118,699
Total assets	7,219,406	3,807,817	11,027,223	1,612,803
Liabilities				
Current liabilities:				
Accounts payable	507,666	10,917	518,583	100,115
Accrued and other liabilities	65,214	58,261	123,475	14,710
Current portion of long-term debt (Note 6)	-	170,000	170,000	-
Total current liabilities	572,880	239,178	812,058	114,825
Noncurrent liabilities:				
Provision for compensated absences (Note 6)	13,935	-	13,935	7,849
Long-term debt - Net of current portion (Note 6)	-	2,538,958	2,538,958	-
Total noncurrent liabilities	13,935	2,538,958	2,552,893	7,849
Total liabilities	586,815	2,778,136	3,364,951	122,674
Net Assets				
Investment in capital assets - Net of related debt	5,839,589	937,655	6,777,244	1,118,699
Unrestricted	793,002	92,026	885,028	371,430
Total net assets	<u>\$ 6,632,591</u>	<u>\$ 1,029,681</u>	<u>\$ 7,662,272</u>	<u>\$ 1,490,129</u>

City of Fraser, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Business-type Activities		Governmental	
	Major Funds		Activity	
	Water and Sewer	Senior Citizen Housing Complex	Total Enterprise Funds	Internal Service Fund
Operating Revenue				
Charges for services	\$ 4,045,612	\$ -	\$ 4,045,612	\$ -
Interest and penalties	41,126	-	41,126	-
Rents	-	443,360	443,360	581,999
Other	5,381	-	5,381	14,360
Total operating revenue	4,092,119	443,360	4,535,479	596,359
Operating Expenses				
Salaries	659,090	29,607	688,697	85,213
Fringe benefits	248,953	-	248,953	59,376
Material and supplies	98,235	15,242	113,477	11,031
Gas and oil	-	-	-	104,412
Repairs and maintenance	235,762	65,772	301,534	194,613
Cost of water	757,892	-	757,892	-
Cost of sewage disposal	1,141,645	-	1,141,645	-
Utilities	17,957	43,439	61,396	-
Postage	14,851	-	14,851	-
Professional services	51,825	-	51,825	-
Insurance	-	-	-	63,426
Equipment rental	287,000	-	287,000	-
Curbside recycling	91,702	-	91,702	-
Depreciation	337,688	80,201	417,889	221,403
Miscellaneous	8,285	8,503	16,788	31,183
Total operating expenses	3,950,885	242,764	4,193,649	770,657
Operating Income (Loss)	141,234	200,596	341,830	(174,298)
Nonoperating Revenue (Expenses)				
Tap-in fees	58,593	-	58,593	-
Interest income	9,592	2,285	11,877	7,045
Interest expense	-	(144,703)	(144,703)	-
Gain on disposal of capital asset	-	-	-	4,249
Total nonoperating revenue (expenses)	68,185	(142,418)	(74,233)	11,294

City of Fraser, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets (Continued) Year Ended June 30, 2005

	Business-type Activities			Governmental
	Major Funds		Total	Activity
	Water and Sewer	Senior Citizen Housing Complex	Enterprise Funds	Internal Service Fund
Income (Loss) - Before contributions	\$ 209,419	\$ 58,178	\$ 267,597	\$ (163,004)
Capital Contributions from Developers	<u>225,873</u>	<u>-</u>	<u>225,873</u>	<u>-</u>
Income (Loss) - Before operating transfers	435,292	58,178	493,470	(163,004)
Operating Transfers Out	<u>(110,288)</u>	<u>(10,000)</u>	<u>(120,288)</u>	<u>-</u>
Change in Net Assets	325,004	48,178	373,182	(163,004)
Net Assets - Beginning of year	<u>6,307,587</u>	<u>981,503</u>	<u>7,289,090</u>	<u>1,653,133</u>
Net Assets - End of year	<u>\$ 6,632,591</u>	<u>\$ 1,029,681</u>	<u>\$ 7,662,272</u>	<u>\$ 1,490,129</u>

City of Fraser, Michigan

	Enterprise - Water and Sewer	Senior Citizen Housing Complex
Cash Flows from Operating Activities		
Receipts from customers	\$ 3,950,114	\$ 443,165
Payments to suppliers	(2,840,586)	(125,240)
Payments to employees	(687,212)	(30,097)
Other receipts	5,381	-
Net cash provided by operating activities	427,697	287,828
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(158,867)	-
Tap-in fee collections	58,593	-
Operating transfers from (to) other funds	(110,288)	(10,000)
Proceeds from sale of fixed asset	-	-
Principal and interest paid on capital debt	-	(259,009)
Net cash used in capital and related financing activities	(210,562)	(269,009)
Cash Flows from Investing Activities - Interest received on investments	9,592	2,285
Net Increase in Cash and Cash Equivalents	226,727	21,104
Cash and Cash Equivalents - Beginning of year	359,323	105,801
Cash and Cash Equivalents - End of year	\$ 586,050	\$ 126,905
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities		
Operating income (loss)	\$ 141,234	\$ 200,596
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation and amortization	337,688	80,201
Changes in assets and liabilities:		
Receivables	(136,624)	-
Other assets	-	2,524
Accounts payable	82,508	4,573
Accrued and other liabilities	2,891	(66)
Net cash provided by operating activities	\$ 427,697	\$ 287,828
Noncash Transactions - Contribution of capital assets from developers	\$ 225,873	\$ -

Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2005

Total Enterprise Funds	Internal Service Fund
\$ 4,393,279	\$ 581,999
(2,965,826)	(398,828)
(717,309)	(85,354)
<u>5,381</u>	<u>14,360</u>
715,525	112,177
(158,867)	(63,859)
58,593	-
(120,288)	-
-	21,818
<u>(259,009)</u>	<u>-</u>
(479,571)	(42,041)
<u>11,877</u>	<u>7,045</u>
247,831	77,181
<u>465,124</u>	<u>416,923</u>
<u>\$ 712,955</u>	<u>\$ 494,104</u>
\$ 341,830	\$ (174,298)
417,889	221,403
(136,624)	-
2,524	-
87,081	63,620
<u>2,825</u>	<u>1,452</u>
<u>\$ 715,525</u>	<u>\$ 112,177</u>
<u>\$ 225,873</u>	<u>\$ -</u>

City of Fraser, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2005

	Trust Funds - Pension and Other Retirement Benefits	Agency Funds
Assets		
Cash and cash equivalents	\$ 645,564	\$ 658,441
Investments:		
U.S. government securities	1,988,942	-
Stocks	9,961,261	-
Corporate bonds	3,098,280	-
Mortgage obligations	2,919,829	-
Annuities	640,826	-
Mutual funds	2,481,158	-
Total assets	21,735,860	<u>\$ 658,441</u>
Liabilities - Accrued and other liabilities	<u>79,159</u>	<u>\$ 658,441</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 21,656,701</u>	

City of Fraser, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2005

	Trust Funds - Pension and Other Retirement Benefits
Additions	
Investment income:	
Interest and dividends	\$ 658,133
Net increase in fair value of investments	1,367,614
Less investment expenses	<u>(126,129)</u>
Net investment income	1,899,618
Contributions:	
Employer	2,211,867
Employee	<u>253,298</u>
Total contributions	<u>2,465,165</u>
Total additions	4,364,783
Deductions	
Benefit payments	2,903,647
Administrative expenses	<u>17,402</u>
Total deductions	<u>2,921,049</u>
Net Increase	1,443,734
Net Assets - Beginning of year	<u>20,212,967</u>
Net Assets - End of year	<u><u>\$ 21,656,701</u></u>

City of Fraser, Michigan

Component Units Statement of Net Assets June 30, 2005

	Economic Development Corporation	Downtown Development Authority	Total
Assets - Cash and investments	<u>\$ 16,294</u>	<u>\$ 4,441</u>	<u>\$ 20,735</u>
Net Assets - Unrestricted	<u>\$ 16,294</u>	<u>\$ 4,441</u>	<u>\$ 20,735</u>

City of Fraser, Michigan

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants/ Contributions
Economic Development Corporation -			
Public works and streets	\$ -	\$ -	\$ -
Downtown Development Authority -			
Public works	-	-	-
Total governmental activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues - Interest

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets		
Economic Development Corporation	Downtown Development Authority	Total
\$ -	\$ -	\$ -
-	-	-
-	-	-
267	73	340
267	73	340
16,027	4,368	20,395
\$ 16,294	\$ 4,441	\$ 20,735

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Fraser, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

The City of Fraser, Michigan Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as part of the Senior Housing Fund because its primary purpose is to finance and construct the City's senior citizen housing.

The City's employee retirement system has also been blended into the City's financial statements. The system is governed by an 11-member pension board that includes the plan trustee chosen by the City Council. The system is reported as if it is part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

Discretely Presented Component Units - The following component units are reported within the component units column in the combined financial statements. They are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of 10 individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council.
- b. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of nine individuals, is selected by the City Council.

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Drug Forfeiture Fund (a Special Revenue Fund) accounts for the revenues and associated expenditures generated through drug seizure and related drug enforcement activities.
- The Special Assessment Fund (a Debt Service Fund) accounts for special assessment district revenues collected to make principal and interest payments on the 1996 Special Assessment Bonds.

The City reports the following major proprietary funds:

- The Water and Sewer Fund accounts for the activities of the water distribution and sewage collection system.
- The Senior Citizen Housing Complex Fund accounts for activity of the senior citizen housing center.

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

- The Internal Service Fund accounts for vehicle and equipment rental provided to other departments of the City on a cost reimbursement basis.
- The Pension Trust Fund and Retiree Health Care Fund account for the activities of the retirement systems, which accumulate resources for pension benefit payments to qualified employees, and for medical benefits provided to employees during retirement, respectively.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund, Major Street Fund, Local Street Fund, General Obligation Fund, Water and Sewer Fund, Internal Service Fund, and Special Assessment Fund (a Capital Projects Fund) is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Properties are assessed as of December 31 and the related property taxes become a lien and are billed on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

Prepaid Costs and Other Assets - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - An outside developer of property within the City constructed a retention pond and remitted funds to the City to cover estimated future maintenance costs. This amount has been classified as a restricted asset.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	20-30 years
Water and sewer distribution systems	25-30 years
Buildings and building improvements	20-50 years
County road improvements	5-20 years
Vehicles	5-20 years
Machinery and equipment	5-20 years
Furniture and fixtures	5-15 years

Compensated Absences - It is the City's policy to permit certain employees to accumulate earned but unused sick, vacation, and personal pay benefits. All vacation, sick, and personal pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

City of Fraser, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

The following is a summary of the unreserved fund balances of the governmental funds with management's designations:

	Funds			
	General	Drug Forfeiture	Special Assessment	Nonmajor
Designated for property tax appeals	\$ 165,000	\$ -	\$ -	\$ -
Undesignated	<u>2,315,804</u>	<u>654,552</u>	<u>136,854</u>	<u>903,672</u>
Total unreserved	<u>\$ 2,480,804</u>	<u>\$ 654,552</u>	<u>\$ 136,854</u>	<u>\$ 903,672</u>

Property Tax Revenue - Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2004 ad valorem tax is levied and collectible on July 1, 2004 and is recognized as revenue in the year ended June 30, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the City totaled \$536 million, on which ad valorem taxes levied consisted of 14.24 mills for operating purposes, 0.60 mills for ambulance services, and 3.16 mills for debt service. This resulted in \$7.5 million for operating, \$321,000 for ambulance services, and approximately \$1.7 million for debt service. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 1 - Summary of Significant Accounting Policies (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2008.

Note 2 - Stewardship, Compliance, and Accountability

The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. During the current year, the City amended the budget subsequent to June 30, 2005.

The budgetary comparison schedule (non-GAAP budgetary basis) - General Fund and the budgetary comparison schedule - Drug Forfeiture Fund included in the required supplemental information are presented on the same basis of accounting used in preparing the adopted budgets. The budgets have been adopted on a fund basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of the actual results of operations to the General Fund and Drug Forfeiture Fund budgets as adopted by the City Council is available at the clerk's office for inspection.

The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provisions of the Act, the City has adopted this accounting treatment. For the year ended June 30, 2005, building department revenue and expenditures totaled approximately \$180,000 and \$323,000, respectively, which resulted in an excess of expenditures over revenue of approximately \$143,000 for this period. Since January 1, 2000, each year's expenditures have exceeded revenues within the City's building department.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units (the City) to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension Trust Fund and Retiree Health Care Fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City's investment policy adopted by the council limits investments to those listed under the State's statutory authority as noted above. At June 30, 2005, the City's deposits and investments are in accordance with statutory authority.

The City's Pension Trust Fund and Retiree Health Care Fund investment policy, adopted by the City's pension board, limits investments to those listed under the State's statutory authority as noted above. The policy places further restrictions within the statutory limits that are discussed in greater detail below. At June 30, 2005, the deposits in the Pension Trust Fund and Retiree Health Care Fund are in accordance with statutory authority.

The City's deposits and investments are subject to several types of risk, which are examined in more detail below:

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk - City-wide Bank Deposits and Investments

Custodial credit risk is the risk that in the event of a third-party custodian's failure, the City's deposits and investments may not be returned. The City's investment policy requires that deposits and investments held by a third-party custodian be evidenced by a safekeeping receipt. At year end, the City had \$5.6 million of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of Federal Deposit Insurance Corporation insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it invests funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Pension and Retiree Health Care Trust Funds

The City's Pension Trust and Retiree Health Care Funds do not have an investment policy for custodial credit risk.

At year end, the following investment securities were uninsured and unregistered, and held by a counterparty or by its trust department or agent but not in the City's name:

Investment Type	Fair Value of		How Held
	City-wide Deposits and Investments	Fair Value of Pension Trust and Retiree Health Care Funds	
United States government agency securities	\$ -	\$ 2,919,829	Counterparty
United States government bonds	-	1,843,637	Counterparty
Corporate bonds	-	3,098,280	Counterparty
Mutual funds	-	2,481,158	Counterparty
Equity securities	-	9,961,261	Counterparty
Annuity contract	-	640,826	Counterparty
Total uninsured and unregistered	<u>\$ -</u>	<u>\$ 20,944,991</u>	

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's and the pension and retiree health care investment policies do not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment Type	Fair Value of City-wide Deposits and Investments	Fair Value of Pension Trust and Retiree Health Care Funds	Weighted Average Maturity
Interlocal Agreement Fund	\$ 298,688	\$ -	21 days
United States government agency securities	-	2,919,829	9.4 years*
United States government bonds	-	1,843,637	10.8 years*
Corporate bonds	-	3,098,280	5.3 years*
Municipal bonds	-	145,305	3.6 years
Annuity contract	-	640,826	-

* Governmental agency securities and all bonds are subject to monthly or quarterly principal and interest payments. The weighted average maturity is based on the expected date of the last principal and interest payment. These investments are callable and have interest rates ranging from 2.6 percent and 13.3 percent.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. The City's pension and retiree health care funds limit investments in nonconvertible bonds at the time of purchase to a rating of Baa or greater by Moody's and Standard and Poor's. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment Type	Fair Value	Rating	Rating Organization
Interlocal Agreement Fund	\$ 298,688	A1	Moody's
United States government agency securities - Federal Home Loan Mortgage Corporation	1,665,736	AAA	Standards and Poor's
Corporate bonds	3,098,280	BBB- to AAA	Standards and Poor's
Municipal bonds	145,305	AAA	Standards and Poor's

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk - City-wide Bank Deposits and Investments

The City places limits on deposits maintained at any given financial institution to no more than 50 percent of the City's total deposits.

Concentration of Credit Risk - Pension and Retiree Health Care Trust Funds

The City's pension and retiree health care funds limit investments in Baa rated bonds to no greater than 15 percent of the fixed income section of the portfolio. No more than 5 percent of the total asset portfolio may be invested in a single fixed income security and no more than 10 percent of the total portfolio may be invested in securities of a governmental agency that are not fully backed by the United States government. The funds target investments in equity securities are between 40 percent and 60 percent of the portfolio and no more than 2 percent of the total portfolio shall be invested in a single equity security. At June 30, 2005, the City's pension fund maintained investments in the Federal Home Loan Mortgage Corporation totaling approximately 7.8 percent of the pension fund's total investments.

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Governmental Activities				
Capital assets not being depreciated:				
Land and land improvements	\$ 4,950,179	\$ -	\$ -	\$ 4,950,179
Construction in progress	50,465	-	(50,465)	-
Subtotal	5,000,644	-	(50,465)	4,950,179
Capital assets being depreciated:				
Roads and sidewalks	69,339,637	302,336	(65,022)	69,576,951
County road improvements	473,980	15,567	-	489,547
Buildings and improvements	5,734,292	592,890	-	6,327,182
Vehicles	3,790,031	63,859	(316,498)	3,537,392
Machinery and equipment	1,121,232	160,607	(52,709)	1,229,130
Furniture and fixtures	274,291	-	-	274,291
Subtotal	80,733,463	1,135,259	(434,229)	81,434,493

City of Fraser, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Capital Assets (Continued)

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Governmental Activities (Continued)				
Accumulated depreciation:				
Roads and sidewalks	\$ 60,895,422	\$ 2,457,799	\$ (31,066)	\$ 63,322,155
Buildings and improvements	855,331	137,504	-	992,835
Vehicles	2,352,713	248,457	(291,476)	2,309,694
Machinery and equipment	567,914	5,242	(52,709)	520,447
Furniture and fixtures	90,736	20,585	-	111,321
Subtotal	64,762,116	2,869,587	(375,251)	67,256,452
Net capital assets being depreciated	15,971,347	(1,734,328)	(58,978)	14,178,041
Net capital assets	\$ 20,971,991	\$ (1,734,328)	\$ (109,443)	\$ 19,128,220
	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Business-type Activities				
Capital assets not being depreciated - Land	\$ 837,043	\$ -	\$ -	\$ 837,043
Capital assets being depreciated:				
Water and sewer distribution systems	12,024,259	384,740	-	12,408,999
Buildings and building improvements	3,793,847	-	-	3,793,847
Subtotal	15,818,106	384,740	-	16,202,846
Accumulated depreciation:				
Water and sewer distribution systems	6,243,765	337,688	-	6,581,453
Buildings and building improvements	892,033	80,201	-	972,234
Subtotal	7,135,798	417,889	-	7,553,687
Net capital assets being depreciated	8,682,308	(33,149)	-	8,649,159
Net capital assets	\$ 9,519,351	\$ (33,149)	\$ -	\$ 9,486,202

City of Fraser, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 262,723
Public safety	79,492
Public works	2,305,969
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	<u>221,403</u>
Total governmental activities	<u>\$ 2,869,587</u>
Business-type activities:	
Water and sewer	\$ 337,688
Senior Housing Center	<u>80,201</u>
Total business-type activities	<u>\$ 417,889</u>

Note 5 - Interfund Transfers

Interfund Transfers

The composition of interfund transfers out is as follows:

<u>Fund Transferred From</u>	<u>Fund Transferred to</u>	<u>Amount</u>
Governmental Activities		
General Fund	Nonmajor governmental funds	\$ 1,008,299
Nonmajor governmental funds	Nonmajor governmental funds	<u>72,955</u>
Total governmental operating transfers out		1,081,254
Business-type Activities		
Water and Sewer Fund	Nonmajor governmental funds	110,288
Senior Citizen Housing Complex	General Fund	<u>10,000</u>
Total business-type operating transfers out		<u>120,288</u>
Total operating transfers out reported in governmental and proprietary funds		<u>\$ 1,201,542</u>

Note 5 - Interfund Transfers (Continued)

During 2005, the City's General Fund made significant transfers to the Debt Service Fund to service current year debt payments and local street Special Revenue Funds for the improvement of local streets.

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
1996 Unlimited Tax General Obligation Bonds							
Amount of issue - \$2,275,000							
Maturing through 2004	5.20%	\$150,000	\$ 150,000	\$ -	\$ (150,000)	\$ -	\$ -
1998 Unlimited Tax General Obligation							
City Hall Bonds							
Amount of issue - \$5,750,000	4.20% -	\$200,000 -					
Maturing through 2020	4.25%	\$550,000	5,350,000	-	(125,000)	5,225,000	200,000
2002 Limited Tax General Obligation							
Capital Improvement Bonds							
Amount of issue - \$1,900,000	4.00% -	\$50,000 -					
Maturing through 2023	5.00%	\$175,000	1,875,000	-	(25,000)	1,850,000	50,000
2003 General Obligation Limited Tax							
Refunding Bonds							
Amount of issue - \$1,560,000	2.00% -	\$225,000 -					
Maturing through 2011	3.13%	\$245,000	1,560,000	-	(15,000)	1,545,000	225,000
2003 General Obligation Capital							
Improvement Bonds							
Amount of issue - \$510,000	3.40% -	\$35,000 -					
Maturing through 2013	5.00%	\$70,000	475,000	-	(35,000)	440,000	35,000
Installment purchase agreements -							
1993 Installment Purchase Agreement							
Amount of issue - \$1,865,000	5.40%	\$155,000 -					
Maturing through 2008		\$175,000	645,000	-	(150,000)	495,000	155,000

City of Fraser, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities (Continued)							
Special assessment bonds -							
1996 Special Assessment Bonds							
Amount of issue - \$1,205,000	5.20% -	\$75,000 -					
Maturing through 2012	5.45%	\$100,000	\$ 680,000	\$ -	\$ (100,000)	\$ 580,000	\$ 100,000
Total bond obligations			10,735,000	-	(600,000)	10,135,000	765,000
Other long-term obligations - Compensated absences			1,002,597	52,700	-	1,055,297	549,883
Total governmental activities			11,737,597	52,700	(600,000)	11,190,297	1,314,883
Business-type Activities							
General obligation bonds:							
1999 Building Authority Bonds							
Amount of issue - \$3,235,000	3.95% -	\$155,000 -					
Maturing through 2019	4.80%	\$270,000	2,990,000	-	(125,000)	2,865,000	170,000
Unamortized discount and deferred charges on defeasance	-	-	(167,530)	11,488	-	(156,042)	-
Total bond obligations			2,822,470	11,488	(125,000)	2,708,958	170,000
Other long-term obligations - Compensated absences			42,057	-	(7,500)	34,557	20,622
Total business-type activities			2,864,527	11,488	(132,500)	2,743,515	190,622
Total			\$ 14,602,124	\$ 64,188	\$ (732,500)	\$ 13,933,812	\$ 1,505,505

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 765,000	\$ 409,136	\$ 1,174,136	\$ 170,000	\$ 125,720	\$ 295,720
2007	745,000	380,281	1,125,281	165,000	119,021	284,021
2008	765,000	351,263	1,116,263	165,000	112,256	277,256
2009	630,000	319,863	949,863	165,000	105,326	270,326
2010	670,000	295,883	965,883	160,000	98,380	258,380
2011-2015	2,985,000	850,005	3,835,005	1,010,000	369,720	1,379,720
2016-2020	3,100,000	704,812	3,804,812	1,030,000	100,974	1,130,974
2021-2022	475,000	36,800	511,800	-	-	-
Total	\$ 10,135,000	\$ 3,348,043	\$ 13,483,043	\$ 2,865,000	\$ 1,031,397	\$ 3,896,397

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal League risk pool for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 8 - Contingencies

During the year ended June 30, 2002, the City received an administrative consent order from the State of Michigan Department of Environmental Quality for its alleged violation of the Water Resources Protection of the Natural Resources and Environmental Protection Act, 1994, P.A. 451. As a result of the consent order, the Department of Environmental Quality fined the City \$210,000. The City was required to pay \$20,000 annually from April 2002 through 2004. As of June 30, 2005, all of these payments were made. The City was also required to pay the remaining \$150,000 by conducting three environmental projects to improve the existing storm and sanitary sewer system at various dates through December 31, 2006. The City completed one of these environmental projects for a total cost of approximately \$220,000 and the remaining projects are pending.

During the year ended June 30, 2002, the City issued \$1,900,000 of general obligation, limited tax bonds, which was entirely spent to improve the City's sewer system in the years ended June 30, 2003, 2004, and 2005. As of June 30, 2005, the City has completed its first phase of sewer repairs and there are no ongoing projects. The City estimates it may incur total costs of approximately \$6 million to \$17 million to undertake the construction projects necessary to be in compliance with the Water Resources Protection of the Natural Resources and Environmental Protection Act, 1994, P.A. 451.

Note 9 - Defined Benefit Pension Plan

Plan Description - The City maintains a defined benefit retirement plan consisting of the following employee groups: public safety, Department of Public Works, management employees, office and clerical workers, dispatchers, and supervisors. Each employee group is covered under a consolidated plan. The consolidated plan is a single-employer defined benefit pension plan administered by the City of Fraser's pension board. The consolidated plan does not issue a separate financial report.

Public Safety - The plan covers all full-time public safety employees who are members of POAM or POLC. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2004, the date of the most recent actuarial valuation, public safety membership consisted of 33 retirees and beneficiaries currently receiving benefits, three terminated employees entitled to benefits but not yet receiving them, and 48 current active employees.

Department of Public Works - The plan covers all full-time Department of Public Works employees of the City. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2004, the date of the most recent actuarial valuation, public works membership consisted of five retirees currently receiving benefits, three terminated employees entitled to benefits but not yet receiving them, and 17 current active employees.

Management Employees - The plan covers all full-time management employees of the City. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2004, the date of the most recent actuarial valuation, management membership consisted of nine retirees and beneficiaries currently receiving benefits, four terminated employees entitled to benefits but not yet receiving them, and seven current active employees.

Office and Clerical Workers - The plan covers all full-time office and clerical employees who are members of the collective bargaining unit. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2004, the date of the most recent actuarial valuation, office and clerical membership consisted of 10 retirees and beneficiaries currently receiving benefits, one terminated employee entitled to benefits but not yet receiving them, and 18 current active employees.

Dispatchers - The plan covers all full-time dispatcher employees of the City. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2004, the date of the most recent actuarial valuation, dispatcher membership consisted of six current active employees.

Note 9 - Defined Benefit Pension Plan (Continued)

Supervisors - The plan covers full-time supervisory employees of the City who are not considered management or are not covered by any other collectively bargained plan. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2004, the date of the most recent actuarial valuation, supervisors' membership consisted of four retirees and beneficiaries currently receiving benefits, one terminated employee entitled to benefits but not yet receiving them, and 11 current active employees.

Funding Policy

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The funding policy of the plan provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

The following employee contributions are required under collectively bargained agreements:

Public safety	2.55 percent to 4.57 percent
Department of Public Works	3.72 percent
Office and clerical	5.00 percent
Dispatchers	4.71 percent

Management and supervisory employees are not covered under a collective bargaining agreement. They are required to make a 2 percent and 3 percent contribution, respectively.

City of Fraser, Michigan

Notes to Financial Statements June 30, 2005

Note 9 - Defined Benefit Pension Plan (Continued)

Annual Pension Costs

For the year ended June 30, 2005, the City's annual pension cost and net pension obligation are as follows:

	Public Safety	Public Works	Management	Office and Clerical	Dispatchers	Supervisors	Total
Annual required contribution	\$ 792,090	\$ 104,969	\$ 161,292	\$ 79,398	\$ 28,340	\$ 95,058	\$ 1,261,147
Interest on net pension obligation	(27,025)	2,013	(4,219)	(3,436)	(1,235)	(4,019)	(37,921)
Adjustment to annual required contribution	<u>31,251</u>	<u>(2,327)</u>	<u>4,878</u>	<u>3,973</u>	<u>1,429</u>	<u>4,648</u>	<u>43,852</u>
Annual pension cost	796,316	104,655	161,951	79,935	28,534	95,687	1,267,078
Contributions made	<u>(778,980)</u>	<u>(104,876)</u>	<u>(155,546)</u>	<u>(79,457)</u>	<u>(28,737)</u>	<u>(96,736)</u>	<u>(1,244,332)</u>
Change in net pension obligation (asset)	17,336	(221)	6,405	478	(203)	(1,049)	22,746
Net pension obligation (asset) - Beginning of year	<u>(337,819)</u>	<u>25,158</u>	<u>(52,735)</u>	<u>(42,946)</u>	<u>(15,442)</u>	<u>(50,240)</u>	<u>(474,024)</u>
Net pension obligation (asset) - End of year	<u>\$ (320,483)</u>	<u>\$ 24,937</u>	<u>\$ (46,330)</u>	<u>\$ (42,468)</u>	<u>\$ (15,645)</u>	<u>\$ (51,289)</u>	<u>\$ (451,278)</u>

The annual required contribution was determined as part of an actuarial valuation at June 30, 2003 using the entry actual age cost method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return and (b) projected salary increases of 5 percent per year. Both (a) and (b) include an inflation component of 0 percent. The actuarial valuation of assets was determined using the fair market value of plan assets as of the date of the actuarial valuation. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at June 30, 2005 was 25 years.

City of Fraser, Michigan

Notes to Financial Statements June 30, 2005

Note 9 - Defined Benefit Pension Plan (Continued)

Three-year Trend Information of Annual Pension Cost

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Public safety:			
2003	\$ 574,443	99.3	\$ (346,027)
2004	698,586	98.8	(337,819)
2005	796,316	97.8	(320,483)
Department of Public Works:			
2003	105,925	100.0	26,350
2004	101,303	101	25,158
2005	104,655	100.2	24,937
Management employees:			
2003	89,266	100.7	(54,293)
2004	109,026	98.6	(52,735)
2005	161,951	96.0	(46,330)
Office and clerical workers:			
2003	75,696	98.0	(47,288)
2004	72,345	94.0	(42,946)
2005	79,935	99.4	(42,468)
Dispatchers:			
2003	29,825	98.5	(16,027)
2004	31,203	98.1	(15,442)
2005	28,534	100.7	(15,645)
Supervisors:			
2003	83,015	101.2	(50,117)
2004	99,607	100.1	(50,240)
2005	95,687	101.1	(51,289)

Note 10 - Postemployment Benefits

The City provides health care and dental benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 70 retirees are eligible. The City includes pre-Medicare retirees and their spouses in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care and dental benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$946,000.

Required Supplemental Information

City of Fraser, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 2,147,449	\$ 2,147,449	\$ 2,147,449	\$ -
Resources (Inflows)				
Property taxes:				
Property taxes	9,568,400	9,568,400	9,331,497	(236,903)
Payments in lieu of taxes	70,346	70,346	76,436	6,090
Property tax administration fees	137,500	137,500	148,951	11,451
Interest, penalties, and other	37,610	37,610	47,064	9,454
Total property taxes	9,813,856	9,813,856	9,603,948	(209,908)
Federal sources	118,000	118,000	126,903	8,903
State sources	1,508,000	1,508,000	1,482,789	(25,211)
District Court and Violations Bureau	1,125,100	1,125,100	1,074,742	(50,358)
Licenses, permits, and registrations	215,000	215,000	207,940	(7,060)
Interest income	102,000	102,000	95,808	(6,192)
Other:				
Recreation department	100,000	100,000	90,953	(9,047)
Library revenue	12,600	12,600	12,627	27
Other	767,895	767,895	1,070,441	302,546
Transfer from other funds	10,000	10,000	10,000	-
Total resources (inflows)	13,772,451	13,772,451	13,776,151	3,700
Charges to Appropriations (Outflows)				
General government:				
City Council	96,971	105,341	104,060	1,281
City administration	316,022	330,389	328,400	1,989
District Court	612,859	624,859	622,558	2,301
Finance	473,715	473,715	458,192	15,523
Assessor	181,777	191,612	157,090	34,522
Legal	108,000	137,200	135,724	1,476
Buildings and grounds	292,050	341,750	334,774	6,976
Total general government	2,081,394	2,204,866	2,140,798	64,068

City of Fraser, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Charges to Appropriations (Outflows) (Continued)				
Public works	\$ 1,176,903	\$ 1,176,903	\$ 1,114,785	\$ 62,118
Public safety	6,789,124	6,664,319	6,518,300	146,019
Building inspection	340,925	323,758	322,925	833
City parks and recreation	628,245	639,245	591,467	47,778
Library	377,936	377,936	375,646	2,290
Planning Committee	48,700	56,200	55,002	1,198
Insurance	290,000	290,000	288,450	1,550
Other	91,000	91,000	15,184	75,816
Transfers to other funds	1,948,224	1,948,224	2,000,848	(52,624)
 Total charges to appropriations (outflows)	 13,772,451	 13,772,451	 13,423,405	 349,046
 Fund Balance - End of year	 <u>\$ 2,147,449</u>	 <u>\$ 2,147,449</u>	 <u>\$ 2,500,195</u>	 <u>\$ 352,746</u>

City of Fraser, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Drug Forfeiture Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 676,791	\$ 676,791	\$ 676,791	\$ -
Resources (Inflows)				
Interest income	10,000	10,000	12,765	2,765
Other	<u>365,000</u>	<u>365,000</u>	<u>218,114</u>	<u>(146,886)</u>
Total resources (inflows)	375,000	375,000	230,879	(144,121)
Charges to Appropriations (Outflows)				
Other functions:				
Materials and supplies	157,700	157,700	149,085	8,615
Repairs and maintenance	5,500	5,500	3,717	1,783
Professional services	89,000	89,000	38,102	50,898
Capital outlay	<u>120,000</u>	<u>120,000</u>	<u>62,214</u>	<u>57,786</u>
Total charges to appropriations (outflows)	<u>372,200</u>	<u>372,200</u>	<u>253,118</u>	<u>119,082</u>
Fund Balance - End of year	<u>\$ 679,591</u>	<u>\$ 679,591</u>	<u>\$ 654,552</u>	<u>\$ (25,039)</u>

City of Fraser, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress (a) June 30, 2005

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (Percent)
Public Safety						
June 30:						
1999	\$ 13,021,414	\$ 13,856,946	\$ 835,532	94	2,821,221	30
2000	13,705,926	16,202,639	2,496,713	85	3,298,768	76
2001	13,855,770	16,585,807	2,730,037	84	3,275,235	83
2002	13,638,011	17,616,778	3,978,767	77	3,007,735	132
2003	13,014,477	19,182,822	6,168,345	68	3,416,100	181
2004	12,747,123	21,145,951	8,398,828	60	3,500,286	240
Management Employees						
June 30:						
1999	2,205,515	2,803,600	598,085	79	384,290	156
2000	2,298,129	3,115,816	817,687	74	415,597	197
2001	2,347,477	2,994,234	646,757	78	430,349	150
2002	2,333,696	3,158,428	824,732	74	447,772	184
2003	2,283,058	3,530,586	1,247,528	65	389,903	320
2004	2,103,563	3,790,858	1,687,295	55	467,912	361
Department of Public Works						
June 30:						
1999	1,879,180	2,004,430	125,250	94	817,789	15
2000	2,092,436	2,063,911	(28,525)	101	855,620	-
2001	2,239,812	2,209,450	(30,362)	101	876,102	-
2002	2,330,995	2,294,856	(36,139)	102	878,573	-
2003	2,397,995	2,677,546	279,551	90	899,817	31
2004	2,490,777	3,006,530	515,753	83	805,720	64
Office and Clerical Workers						
June 30:						
1999	1,216,125	1,341,534	125,409	91	496,850	25
2000	1,293,935	1,505,140	211,205	86	537,144	39
2001	1,343,086	1,624,461	281,375	83	556,642	51
2002	1,350,687	1,540,521	189,834	88	563,156	34
2003	1,347,029	1,803,862	456,833	75	626,530	73
2004	1,378,954	2,048,400	669,446	67	653,358	102
Dispatchers						
June 30:						
1999	59,330	156,588	97,258	38	165,837	59
2000	98,899	208,995	110,096	47	185,444	59
2001	141,491	251,358	109,867	56	194,066	57
2002	178,229	283,220	104,991	63	226,066	46
2003	219,059	365,078	146,019	60	237,218	62
2004	269,651	441,556	171,905	61	245,358	70
Supervisors						
June 30:						
1999	1,389,535	1,732,131	342,596	80	533,303	64
2000	1,561,989	1,791,324	229,335	87	541,425	42
2001	1,723,435	1,970,323	246,888	87	594,126	42
2002	1,807,914	2,495,315	687,401	72	598,408	115
2003	1,838,344	2,796,438	958,094	66	599,548	160
2004	1,908,654	3,000,245	1,091,591	64	554,253	197

(a) Required by Governmental Accounting Standards Board Statement No. 25

City of Fraser, Michigan

Required Supplemental Information Pension System Schedule of Employer Contributions June 30, 2005

Year Ended	Annual Required Contribution	Percentage Contributed
<u>Public Safety</u>		
Year ended June 30:		
2000	\$ 535,495	129
2001	525,746	98
2002	598,171	101
2003	570,774	100
2004	694,625	99
2005	792,090	98
<u>Management Employees</u>		
Year ended June 30:		
2000	124,679	86
2001	129,104	100
2002	101,923	105
2003	88,703	101
2004	108,404	99
2005	161,292	87
<u>Department of Public Works Employees</u>		
Year ended June 30:		
2000	118,022	103
2001	113,352	101
2002	108,552	103
2003	106,201	100
2004	101,605	101
2005	104,969	94
<u>Office and Clerical Workers</u>		
Year ended June 30:		
2000	72,514	102
2001	76,734	99
2002	70,040	103
2003	75,184	99
2004	71,804	95
2005	79,398	96
<u>Dispatchers</u>		
Year ended June 30:		
2000	30,598	102
2001	32,021	100
2002	26,067	104
2003	29,652	99
2004	31,019	99
2005	28,340	99
<u>Supervisors</u>		
Year ended June 30:		
2000	115,831	103
2001	116,297	100
2002	76,919	106
2003	82,500	102
2004	99,033	101
2005	95,058	95

City of Fraser, Michigan

Required Supplemental Information **Pension System Schedule of Employer Contributions (Continued)** **June 30, 2005**

The retirement system supplementary information was determined as part of the actuarial valuations at the dates indicated. Additional information and actuarial assumptions used for all plans as of the latest actuarial valuation reports dated June 30, 2004 are as follows:

Actuarial cost method	Individual entry age
Amortization method	Level of percent closed
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4% to 5%
Payroll growth	5%
Inflation	None

Other Supplemental Information

City of Fraser, Michigan

		Nonmajor Special Revenue Funds	
		Major Streets	Local Streets
Assets			
Cash and investments		\$ 671,585	\$ 122,708
Due from other governmental units		88,393	38,247
Total assets		<u>\$ 759,978</u>	<u>\$ 160,955</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable		\$ 7,099	\$ 92,521
Accrued and other liabilities		2,602	4,408
Due to other funds		-	-
Total liabilities		9,701	96,929
Fund Balances - Reserved		<u>750,277</u>	<u>64,026</u>
Total liabilities and fund balances		<u>\$ 759,978</u>	<u>\$ 160,955</u>

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

Nonmajor Debt Service Funds		Nonmajor Capital Projects Fund				Total Nonmajor Governmental Funds
General Obligation	Motor Vehicle Highway	Capital Improvements	City Hall	2003 Senior Activities Center Expansion	Special Assessments	
\$ 72,425	\$ -	\$ 1,205	\$ -	\$ 14,524	\$ 18,650	\$ 901,097
-	-	-	-	-	-	126,640
\$ 72,425	\$ -	\$ 1,205	\$ -	\$ 14,524	\$ 18,650	\$ 1,027,737
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,391	\$ 117,011
-	-	-	-	-	44	7,054
-	-	-	-	-	-	-
-	-	-	-	-	17,435	124,065
72,425	-	1,205	-	14,524	1,215	903,672
\$ 72,425	\$ -	\$ 1,205	\$ -	\$ 14,524	\$ 18,650	\$ 1,027,737

City of Fraser, Michigan

	Nonmajor Special Revenue Funds	
	Major Streets	Local Streets
Revenue		
Property taxes	\$ -	\$ -
State sources	546,500	236,436
Special assessments	-	-
Interest on investments	8,780	364
Other revenue	72,000	9,743
Total revenue	627,280	246,543
Expenditures		
Current - Public works	464,374	638,978
Capital outlay	-	-
Debt service	-	-
Total expenditures	464,374	638,978
Excess of Expenditures Over (Under) Revenue	162,906	(392,435)
Other Financing Sources (Uses)		
Transfers in	135,000	450,000
Transfers out	(40,000)	-
Total other financing sources (uses)	95,000	450,000
Change in Fund Balances	257,906	57,565
Fund Balances (Deficit) - Beginning of year	492,371	6,461
Fund Balances - End of year	\$ 750,277	\$ 64,026

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2005

Nonmajor Debt Service Funds		Nonmajor Capital Projects Fund				Total Nonmajor Governmental Funds
General Obligation	Motor Vehicle Highway	Capital Improvements	City Hall	2003 Senior Activities Center Expansion	Special Assessments	
\$ 353,230	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 353,230
-	-	-	-	-	-	782,936
-	-	-	-	-	101,199	101,199
1,589	-	1,415	1,093	2,514	106	15,861
-	-	-	-	-	-	81,743
354,819	-	1,415	1,093	2,514	101,305	1,334,969
-	-	27,743	-	-	-	1,131,095
-	-	-	134,512	493,865	85,524	713,901
738,971	184,380	-	-	-	-	923,351
738,971	184,380	27,743	134,512	493,865	85,524	2,768,347
(384,152)	(184,380)	(26,328)	(133,419)	(491,351)	15,781	(1,433,378)
422,162	184,380	-	-	-	-	1,191,542
-	-	-	(32,955)	-	-	(72,955)
422,162	184,380	-	(32,955)	-	-	1,118,587
38,010	-	(26,328)	(166,374)	(491,351)	15,781	(314,791)
34,415	-	27,533	166,374	505,875	(14,566)	1,218,463
<u>\$ 72,425</u>	<u>\$ -</u>	<u>\$ 1,205</u>	<u>\$ -</u>	<u>\$ 14,524</u>	<u>\$ 1,215</u>	<u>\$ 903,672</u>

City of Fraser, Michigan

Other Supplemental Information Budgetary Comparison Schedule Nonmajor Governmental Funds - Special Revenue Fund - Major Streets Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 492,371	\$ 492,371	\$ 492,371	\$ -
Resources (Inflows)				
State sources	556,900	556,900	546,500	(10,400)
Other	-	-	72,000	72,000
Interest income	4,500	4,500	8,780	4,280
Operating transfers	<u>142,030</u>	<u>142,030</u>	<u>135,000</u>	<u>(7,030)</u>
Total resources (inflows)	703,430	703,430	762,280	58,850
Charges to Appropriations (Outflows)				
Public works:				
Salaries and fringe benefits	211,300	211,300	146,947	64,353
Materials and supplies	50,000	50,000	21,563	28,437
Repairs and maintenance	30,000	30,000	47,085	(17,085)
Equipment rental	21,000	21,000	21,000	-
Other	43,700	43,700	67,884	(24,184)
Capital outlay	307,430	307,430	159,895	147,535
Operating transfers	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>	<u>-</u>
Total charges to appropriations (outflows)	<u>703,430</u>	<u>703,430</u>	<u>504,374</u>	<u>199,056</u>
Fund Balance - End of year	<u><u>\$ 492,371</u></u>	<u><u>\$ 492,371</u></u>	<u><u>\$ 750,277</u></u>	<u><u>\$ 257,906</u></u>

City of Fraser, Michigan

Other Supplemental Information Budgetary Comparison Schedule Nonmajor Governmental Funds - Special Revenue Fund - Local Streets Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 6,461	\$ 6,461	\$ 6,461	\$ -
Resources (Inflows)				
State sources	240,800	240,800	236,436	(4,364)
Other	-	-	9,743	9,743
Interest income	400	400	364	(36)
Operating transfers	<u>462,613</u>	<u>462,613</u>	<u>450,000</u>	<u>(12,613)</u>
Total resources (inflows)	703,813	703,813	696,543	(7,270)
Charges to Appropriations (Outflows)				
Public works:				
Salaries and fringe benefits	292,099	292,099	228,100	63,999
Materials and supplies	45,000	45,000	45,129	(129)
Repairs and maintenance	55,000	55,000	54,772	228
Equipment rental	27,000	27,000	27,000	-
Other	1,700	1,700	1,655	45
Capital outlay	<u>283,014</u>	<u>283,014</u>	<u>282,322</u>	<u>692</u>
Total charges to appropriations (outflows)	<u>703,813</u>	<u>703,813</u>	<u>638,978</u>	<u>64,835</u>
Fund Balance - End of year	<u><u>\$ 6,461</u></u>	<u><u>\$ 6,461</u></u>	<u><u>\$ 64,026</u></u>	<u><u>\$ 57,565</u></u>

City of Fraser, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2005

	Pension Trust	Retiree Health Care Trust	Pension and Other Employee Benefit Trust Fund Totals	Agency
Assets - Cash and investments	\$ 21,290,442	\$ 445,418	\$ 21,735,860	\$ 658,441
Liabilities - Accrued and other liabilities	-	79,159	79,159	658,441
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 21,290,442</u>	<u>\$ 366,259</u>	<u>\$ 21,656,701</u>	<u>\$ -</u>

City of Fraser, Michigan

	Money Purchase Pension	Public Safety	Management Employees
Additions			
Investment income (loss):			
Interest and dividends	\$ 1,530	\$ 397,195	\$ 78,933
Net increase in fair value of investments	1,651	853,880	91,391
Less investment expenses	(328)	(78,837)	(9,505)
Net investment income	2,853	1,172,238	160,819
Contributions:			
City	-	778,980	141,036
Employee	-	125,319	24,583
Total contributions	-	904,299	165,619
Total additions	2,853	2,076,537	326,438
Deductions			
Benefit payments	50,752	1,300,827	248,051
Administrative expenses	6,300	-	8,911
Total deductions	57,052	1,300,827	256,962
Net Increase (Decrease) in Net Assets	(54,199)	775,710	69,476
Net Assets Held in Trust for Pension Benefits			
Beginning of year	54,199	12,084,138	1,977,495
End of year	<u>\$ -</u>	<u>\$ 12,859,848</u>	<u>\$ 2,046,971</u>

Other Supplemental Information
Combining Statement of Changes in Net Assets
Trust Funds
Year Ended June 30, 2005

Department of Public Works	Office and Clerical Workers	Dispatchers	Supervisors	Total Pension Trust Fund	Retiree Health Care Trust	Trust Fund Totals
\$ 71,062	\$ 40,247	\$ 8,564	\$ 54,677	\$ 652,208	\$ 5,925	\$ 658,133
172,942	95,212	20,035	132,503	1,367,614	-	1,367,614
(15,250)	(8,637)	(1,838)	(11,734)	(126,129)	-	(126,129)
228,754	126,822	26,761	175,446	1,893,693	5,925	1,899,618
98,666	75,976	27,497	90,804	1,212,959	998,908	2,211,867
36,473	34,706	11,889	20,328	253,298	-	253,298
135,139	110,682	39,386	111,132	1,466,257	998,908	2,465,165
363,893	237,504	66,147	286,578	3,359,950	1,004,833	4,364,783
127,698	94,909	6,123	128,902	1,957,262	946,385	2,903,647
75	-	536	1,580	17,402	-	17,402
127,773	94,909	6,659	130,482	1,974,664	946,385	2,921,049
236,120	142,595	59,488	156,096	1,385,286	58,448	1,443,734
2,383,135	1,315,594	264,097	1,826,498	19,905,156	307,811	20,212,967
\$ 2,619,255	\$ 1,458,189	\$ 323,585	\$ 1,982,594	\$ 21,290,442	\$ 366,259	\$ 21,656,701

City of Fraser, Michigan

	Money Purchase Pension	Public Safety	Management Employees
Assets - Cash and investments	\$ -	\$ 12,859,848	\$ 2,046,971
Liabilities - Due to retiree	-	-	-
Net Assets - Held in trust for pension benefits	<u>\$ -</u>	<u>\$ 12,859,848</u>	<u>\$ 2,046,971</u>

Other Supplemental Information
Combining Statement of Net Assets by Retiree Group
Pension Trust Fund
Year Ended June 30, 2005

Department of Public Works	Office and Clerical Workers	Dispatchers	Supervisors	Total Pension Trust Fund
\$ 2,619,255	\$ 1,458,189	\$ 323,585	\$ 1,982,594	\$ 21,290,442
-	-	-	-	-
<u>\$ 2,619,255</u>	<u>\$ 1,458,189</u>	<u>\$ 323,585</u>	<u>\$ 1,982,594</u>	<u>\$ 21,290,442</u>



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October 5, 2005

The Honorable Mayor and
Members of the City Council
City of Fraser, Michigan
33000 Garfield
Fraser, Michigan 48026

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Fraser, Michigan (the "City") for the year ended June 30, 2005. As a part of that audit and to assist with the City's continuous improvement efforts, we offer the following comments and recommendations for your review and consideration.

Overview of the City's Financial Condition

The City's efforts to closely monitor expenditures resulted in an increase in fund balance of approximately \$353,000 during the year ended June 30, 2005. As a result, fund balance in the General Fund totaled \$2.5 million at June 30, 2005. Of that amount, \$2.3 million is unreserved and undesignated. This represents approximately 16 percent of the City's budgeted General Fund expenditures for the fiscal year ending June 30, 2006.

Budgeting and Cash Flow Requirements

In previous years, we recommended the City formulate a five-year operating plan that would include different financial scenarios it may expect to encounter. This type of multi-year planning allows a municipality to proactively identify total available revenue compared to the expenditure trends and address short- and long-term solutions to maintaining a balanced budget. The city manager is close to finishing his initial draft of a five-year plan. We are available to help the city manager review this operating plan if necessary.



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Water and Sewer Fund

The Water and Sewer Fund operating results for the year ended June 30, 2005 increased by \$325,000 from the prior year. This primarily results from an increase in operating revenue from additional units of water and sewer billed to customers, a \$300,000 reduction in repair and maintenance expenditures from 2004, and \$225,000 of revenue received from developer contributions, offset with an increase in general operating expenditures. The Water and Sewer Fund generated approximately \$428,000 of cash flow from operations. In order for the Water and Sewer Fund to finance the significant capital improvements required to maintain and upgrade its infrastructure, it must continue to increase its capital position by improving operating results and increasing the cash flow generated from operations. Otherwise, any significant improvements to infrastructure may require alternative financing sources. We continue to strongly encourage the City to continue closely monitoring water and sewer operating costs, short- and long-term infrastructure needs, and user rates to appropriately address these concerns.

Retiree Health Care

As you are aware, the City provides postemployment health care benefits to substantially all City employees. The City established a Retiree Healthcare Fund under Public Act 149 to fund these postemployment benefits. The City has accumulated approximately \$445,000 in the Retiree Health Care Fund at June 30, 2005. For the year ended June 30, 2005, the annual cost of these benefits was approximately \$946,000, which represents an increase of approximately 6 percent from the 2004 amount. The City budgeted \$974,000 for retiree health care costs in fiscal 2006 and the annual cost is expected to increase annually beyond fiscal year 2006.

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level.

The promise to provide health care to retirees is very similar to the promise to provide an annual pension check. Similar to the current accounting for the pension systems, the new pronouncement will require the City to obtain an actuarial valuation of the obligation to provide retiree health care benefits. In addition, the City's funding status or the progress it has made in accumulating assets to pay for this liability will be disclosed in the financial statements. In addition, the City will be required to make an annual contribution equal to the amount that the actuary deems necessary to fund the liability. The changes required under GASB Statement No. 45 will be effective for the City's year ending June 30, 2008. We would be happy to assist the City in further understanding the provisions of GASB Statement No. 45.

The Honorable Mayor and
Members of the City Council
City of Fraser, Michigan

3

October 5, 2005

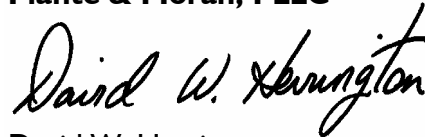
Change to the Deposit and Investment Footnote

The Governmental Accounting Standards Board (GASB) recently issued GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement expands the required report disclosures related to the City's deposits and investments. The City successfully implemented this new reporting standard in the June 30, 2005 financial report; accordingly, the deposit and investment footnote to the financial statements has changed significantly from previous years.

We would like to thank the council for providing us the opportunity to serve as the auditors for the City. In addition, we sincerely appreciate the preparedness and cooperation extended to us by Mr. Bremer, Mrs. Jamison, Mrs. Robichaud, and the rest of the staff during this audit. As always, we are pleased to discuss these comments, information presented in the financial statements, or any other matters with you at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, reading "David W. Herrington". The signature is written in a cursive style with a large, stylized "H".

David W. Herrington

A handwritten signature in black ink, reading "Paul E. Edwards". The signature is written in a cursive style with a large, stylized "P".

Paul E. Edwards